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POLICY ISSUES: STATE OF THE ENVIRONMENT

Executive Director's Statement on the Environment

Introduction

1. The Executive Director, in her note "Future State-of-the-Environment Reports" (UNEP/GC.17/Inf.11), proposed to provide the Governing Council at each session with a "Statement on the Environment" covering key environmental policy issues; major new sectoral environmental assessment findings and their implications for early warning; new environmental problems; exceptional environmental events of global significance; and action taken or under consideration.

2. As part of such improvement, it is proposed herewith that this, as well as future statements on the environment, focus on one or two critical issues, such as major emerging environmental threats or driving forces of environmental change. Important environmental assessment findings in sectors or regions, or those arising from integrated analyses of areas of concern would be covered in the series produced by UNEP's environmental assessment process. Such findings would not necessarily be repeated in the Executive Director's statement (although highlights would be flagged in appropriate places in her policy speech to the Governing Council). Furthermore, it is believed that exceptional environmental events over the reporting period would have been adequately covered by the media to preclude their repetition in the Executive Director's report, unless the persistent effects of such events were to become a matter of global concern.

\* UNEP/GC.18/1.

3. The proposed programme of work: Fund programme activities for the biennium 1996-1997 (UNEP/GC.18/9) is based on UNEP's responsibilities to identify and assess environmental issues of common concern, alert the world community to these issues, induce their resolution through international cooperation and provide policy guidance for the direction and coordination of environmental programmes within the United Nations system. Focusing on four major challenges, it reflects to a large extent the approach proposed for the preparation of future statements on the environment.

4. In order to allow for the Governing Council to have a focused policy-oriented discussion, the present statement on the environment concentrates on the important new environmental challenges addressed in the proposed sub-programme on globalization trends and the environment, with particular emphasis on issues related to trade and environment.

#### Statement on the Environment

5. The international environmental and trade agendas continue to undergo profound change. Since first introduced more than two decades ago, environmental policies have become broader in scope, more stringent in allowable emissions and related standards, more efficient in design, and more flexible in the use of economic tools. Such tools cover a range of instruments, including pollution charges, deposit-refund systems, environmental taxes and other measures. Recent surveys show an important shift is under way in environmental policy emphasis, away from the exclusive reliance on command-and-control regulations, and towards a greater use of economic instruments to help achieve environmental objectives.

6. An important reason for this increased emphasis on economic instruments is the continuing shift in environmental policy focus, from measures intended to address symptoms of ecological degradation, to policies designed to tackle underlying economic causes. Such causes are often associated with pricing and policy failures. Accordingly, a relatively new focus of the green agenda centers on recasting market prices, to include ecological costs.

7. Despite this shift in agenda emphasis, in practice the gap between stated goals and concrete progress remains extremely wide. Despite the endorsement by industry and Governments of full-cost pricing, actual pricing reforms in the market-place remain well below what the public wants, and what sustainable development needs. This is not to say the environmental economic agenda has somehow stalled. Considerable progress continues to be made in assessing the operational relevance of the internalization of environmental externalities. This progress includes clarifying environmental valuation, natural resource accounting and economic instruments. The potential to coordinate application of these tools with other environmental management tools such as environmental and sustainable development performance indicators, environmental impact assessment, life-cycle analysis, and environmental auditing, remains considerable. In practice, however, government policy, industrial priorities, the signals of financial markets, and consumer purchasing patterns consistently undervalue the environment.

8. An equally profound and arguably more successful policy shift is under way in international trade. The implementation of the Uruguay Round is expected to generate billions of dollars each year to the global economy. The

implementation of the Round, and the establishment of the World Trade Organization (WTO), will profoundly change the contours of international trade, and international markets. In addition to new disciplines covering subsidies and tariff reductions, commitments cover agriculture, textiles and services, as well as new rules for dispute settlements, intellectual property rights and other areas. The Uruguay Round will more tightly weave national economies into the expanding global economy. As with environmental policy, a critical feature of economic globalization is the expected shift in some market prices, because of new rules for subsidies, tariffs and other pricing distortions.

9. As the United Nations Conference on Environment and Development (UNCED) recognized, a prerequisite for sustainable development is the integration of economic and environmental policies. Since that conference, an important policy debate has taken place on the need to ensure that international trade and environment policies are mutually supportive. Thus far, the primary focus of this fruitful debate has been on identifying whether various environmental policies at the national, regional or multilateral levels, create intended or accidental distortions to trade liberalization. Considerable analysis continues in determining potential distortions to market access, competition, investment, employment or other economic factors stemming from environmental policies. A major goal of such work is to ensure that environmental policies do not impede the goals of trade liberalization.

10. More work is needed in determining whether environmental measures create potential distortions to economic liberalization. There is clear recognition that green protectionism threatens not only the development aspirations of many developing countries. It also threatens legitimate environmental policy itself. However, there is also a need to look at the other side of the trade-environment debate, that is: the environmental effects of economic liberalization in general, and trade liberalization in particular. Despite welfare gain assumptions associated with the positive links between trade expansion, per capita income growth, and improved environmental protection, empirical evidence confirming these links remains inconclusive. Limited studies do suggest a positive correlation under limited data input scenarios between trade expansion, growth in per capita income, and a decline in some industrial pollution emissions. However, evidence also suggests that, at least in the short term, economic liberalization and export maximization contributes to increasing environmental problems. Such problems include increase in resource extraction, the loss of marginal lands, displacement of rural populations and influx into urban areas, the erosion or destruction of fragile ecosystems, jumps in air and water pollution, and the often unmanageable proliferation of hazardous and toxic chemical wastes.

11. Although change is now the cornerstone of global economic policy, the implications of unprecedented ecological change of planetary dimensions stemming from powerfully new economic trends remain almost entirely unknown. In this context, there is no doubt that the implementation of the Uruguay Round will bring about profound change. The new trade regime is expected to contribute an additional US\$ 500 billion per year to the global economy. The overall volume of merchandise trade is expected to increase by roughly 10-20 per cent. From an economic perspective, this kind of change is obviously welcome. And from the perspective of some environmental issues, such as the promised decrease in agricultural subsidies, liberalization is

expected to bolster resource allocative efficiency, reduce pricing distortions, and strengthen the "polluter pays" principle. However, from a global environmental perspective, a critical question which must be asked is: to what extent can critical ecological thresholds withstand economic change and expansion?

12. This is not a question of academic interest, but one which drives to the very heart of longer-term development assumptions. Each year, science warns of a growing list of unprecedented environmental problems. They are as ominous and diverse as climate change and global warming; the depletion of stratospheric ozone; the massive loss of biodiversity; the collapse of fisheries and continued threat of political conflict stemming from resource exhaustion; the continuing depletion of forests; and the annual loss of billions of tonnes of productive topsoils each year. While Governments advocate sustainable development, tens of millions of tonnes of hazardous and toxic wastes are generated each year, together with millions of tonnes of organic and other chemicals dangerous to human health. Certainly, there has been no lack of meetings, conferences and pious declarations on the virtues of sustainable development since UNCED. However, the gulf between political declaration and policy action is eroding public confidence in the willingness of Governments and industry to mean what they say, and do what they promised.

13. Yet the record shows that when specific economic crises arise, particularly related to international trade and stabilization of monetary policies, Governments can galvanize the political will to act. It is against this background that the debate on trade, environment and sustainable development has become so important. More work is needed to understand both sides of this important debate: that is, not only the potentially distortionary trade effects of environmental policies, but also the environmental implications of global economic liberalization. It is little more than wishful thinking to suggest, without solid empirical evidence, that liberalization in itself is sufficient to guarantee environmental protection and sustainable development. More work is needed to understand potential environmental pressures associated with liberalization before they occur, and to elaborate appropriate environmental and economic policies.

14. The real challenge in the trade-environment debate is therefore not merely to avoid conflicts between the trade and environmental regimes. Rather, it is to ensure that trade - which contributes US\$ 3 trillion each year to the global economy - can work as a positive instrument for sustainable development. Considerably more work is needed to identify environmentally sound goods and services and more flexible methods of accelerating the transfer of environmentally sound technologies to developing countries, and vice versa, and to understand the trade implications of poverty alleviation, sustainable production and consumption commitments.

15. Some of the main areas which merit greater environmental analysis are:

(a) Environmental assessment of trade policy: Increased empirical and policy analysis is needed to assess the environmental effects of trade liberalization, both in relation to multilateral trade policy and to the effects of regional trade and customs unions agreements. How can environmental reviews be undertaken, and how can such information assist national Governments in assessing potential impacts, and introducing appropriate policy responses?

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(b) Environmental implications of macroeconomic policy: Preliminary analysis continues in assessing the direct and indirect effects of macroeconomic policies, including changes in monetary policies and exchange rates, as well as the environmental effects of structural adjustment and price stabilization policies. Evidence does, however, suggest that different macroeconomic policies are often not coordinated and work at cross purposes with development and environmental protection policies. Considerably more work is needed in assessing how environmental factors can be integrated into macroeconomic policies;

(c) Environmental investment: Despite the growing importance of the environmental goods and services sector, evidence suggests that equity, pension fund and money markets largely ignore longer-term investment opportunities stemming from environmental protection. In early 1995, for example, a UNEP global survey of commercial and investment bankers showed an important gap between credit and equity environmental investments. Research, public-private sector partnerships and other initiatives have to be promoted to increase private sector financial investment to strengthen sustainable development;

(d) Environment and employment: In light of recent recessionary pressures, mounting budget deficits and debt, and economic structural shifts associated with trade liberalization and globalization, domestic employment concerns are creating new pressures on both the trade and environmental agenda. Work is needed to determine sustainable employment policies, particularly at the sectoral and country levels;

(e) Sustainable consumption and production patterns: An important policy objective following UNCED is to reform consumption and production patterns, particularly in the industrialized countries. Although there is broad recognition of the differentiated responsibility which developed countries share in this complex area, very little analysis has thus far been made in assessing the trade and investment implications of such reforms, as well as the welfare implications which may affect developing economies.

16. Considerably more work is needed to clarify links between environmental management, trade, macroeconomic policies, employment and investment policies. Some preliminary analysis suggests, for example, that there are positive links between protecting the environment and economic development.

- The estimated value of environmental activities - including pollution abatement, waste management, cleaner production, and the delivery of other environmental technologies and related services - may exceed US\$ 320 billion per year by the year 2000, and US\$ 570 billion by the year 2010.
- Estimates suggest that at least 20 per cent of global environmental expenditures will take place in transitional and developing economy countries.
- In Germany, an estimated 750,000 people are directly employed in the environmental products, services and protection sector. In Canada, an estimated 4,500 small, medium, and large-scale companies, employing an estimated 150,000 people, are involved in the so-called "environmental sector".

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- The market for environmental services in Western Europe was estimated in 1992 to exceed US\$ 94 billion. Growth forecasts for the European environmental sector are approximately 7 per cent per year. Currently, some 16,000 companies directly involved in environmental products and services operate in Europe.
- Hundreds of new "environmental investment" funds have been introduced. Although modest in relation to overall investment amounts, green funds continue to outpace mainstream investment funds: some forecasts show a projected growth of 15 per cent per year, over the next few years, in green funds.

17. The challenge of sustainable development will not be met through promises and conferences. Instead, progress increasingly depends on putting forward policy-relevant environmental assessments of economic policy, capable of identifying microeconomic, sectoral and other effects of environmental policies.

(a) International organizations: The responsibility for moving the environment and trade agenda forward rests with a number of international organizations, including WTO, the United Nations Conference on Trade and Development (UNCTAD), UNEP, the United Nations Development Programme (UNDP) and the Commission on Sustainable Development. One of the real benefits of the post-UNCED debate on trade, environment and sustainable development has been the realization of effective, efficient inter-agency cooperation on this issue. Options need to be explored, to consider how to strengthen further inter-agency cooperation with a view to taking full account of the needs and interests of developing countries;

(b) Industry: Responsibility also rests with industry in delineating market opportunities from the environmental agenda. One area that merits considerably more work is the role which transnational corporations can play in such areas as standards harmonization, technology transfer and capacity-building. Progress is also needed in helping industry become full partners in economic, pricing and other reforms upon which sustainable development must be built;

(c) Public-private sector partnerships: More work is needed in exploring new and innovative sources to finance sustainable development. For example, in 1994 UNEP hosted the first international conference involving the financial services sector on environmental issues. A major area of interest involves opportunities for private-public sector financing of sustainable development. Pilot projects such as those of the Global Environment Facility, in which new venture capital funds are established to cover potentially higher private sector investment risks, need to be expanded. The financial services sector, consisting of commercial and investment banks, insurance companies, pension funds and others, is showing a growing interest in the environment. A real challenge to the United Nations system, as it completes its first half-century, is to align international environment and development policies with the dynamics of the private sector.

18. These are just some of the steps needed to strengthen the footing of sustainable development. However, ultimately the momentum for change must reflect the commitment of national Governments themselves. Almost three years after UNCED, the efforts to build realistic, detailed sustainable development

policies which align economic and ecological realities must be strengthened. UNEP's work on trade and environment can make a substantial contribution to this effort.

Suggested action by the Governing Council

The Council may wish to discuss the growing importance of understanding the linkage between economic activity and the environment and the interface between global economic and environmental issues and, in particular, ways and means to bridge environmental assessment activities and environmental management responses with underlying economic policy and related considerations, welcoming new programme areas, viz. Programme 4: Globalization and the Environment, and noting that sectoral linkages involving trade, law, environmental economics, and other activities are also integrated into core environmental assessment and management programmes. The Council, in addressing these issues, may wish to give particular attention to the challenge for UNEP to ensure that economically relevant environmental policies - intended to address quickly changing and highly complex economic factors - emerge to assist Governments at the national and international levels. A priority area in this regard must be to assist developing countries in meeting new environmental challenges.

In addition to the action by the Council proposed in document UNEP/GC.18/25 entitled "UNEP Action Programme on Environment and Economics", the Council may in particular wish to:

- (i) Acknowledge the growing importance of the interface between global economic trends and environmental issues and, in particular, ways and means to bridge environmental assessment activities and environmental management responses;
- (ii) Welcome a new programme area, Programme 4: Globalization and the Environment, and note that sectoral linkages involving trade, law, environmental economics, and other activities are also integrated into environmental assessment and management programmes;
- (iii) Note the decision of the Commission on Sustainable Development at its second and third sessions on international cooperation and inter-agency coordination in the field of trade, environment and sustainable development and emphasize the need to ensure close cooperation among different international organizations and avoid duplication, in the area of trade, environment and sustainable development, particularly the World Trade Organization, the United Nations Conference on Trade and Development, the United Nations Development Programme and the Organisation for Economic Cooperation and Development;
- (iv) Welcome the proposed format of the Executive Director's statement as avoiding repetition of other documents and statements produced by UNEP and focusing on major emerging threats to the environmental or critical driving forces of environmental change.